

## § 1.665(c)-1A

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credited to a beneficiary as a final distribution of a trust in a taxable year of a trust beginning after December 31, 1968, and before January 1, 1974, will not be subject to the tax imposed under section 668(a)(2) to the extent such distribution would be allocated to a preceding taxable year of the trust beginning before January 1, 1969, if such final distribution was made more than 9 years after the date of the last transfer to such trust. The provisions of this subparagraph may be illustrated by the following example:

*Example.* A trust on a calendar year basis was established on January 1, 1958, and no additional transfers were made to it. On January 1, 1973, the trustee terminates the trust and on the same day he makes a final distribution to the beneficiary, B. The distribution is an accumulation distribution that may be allocated under section 666(a) to 1968, 1969, 1970, 1971, and 1972 (the 5 preceding taxable years as defined in § 1.665(e)-1A). Because more than 9 years elapsed between the date of the last transfer to the trust and the date of final distribution, the distribution is not taxed under section 668 (a) (2) to the extent it would be allocated to 1968 under section 666(a).

[T.D. 7204, 37 FR 17138, Aug. 25, 1972]

### § 1.665(c)-1A Special rule applicable to distributions by certain foreign trusts.

(a) *In general.* Except as provided in paragraph (b) of this section, for purposes of section 665 any amount paid to a U.S. person which is from a payor who is not a U.S. person and which is derived directly or indirectly from a foreign trust created by a U.S. person shall be deemed in the year of payment to the U.S. person to have been directly paid to the U.S. person by the trust. For example, if a nonresident alien receives a distribution from a foreign trust created by a U.S. person and then pays the amount of the distribution over to a U.S. person, the payment of such amount to the U.S. person represents an accumulation distribution to the U.S. person from the trust to the extent that the amount received would have been an accumulation distribution had the trust paid the amount directly to the U.S. person in the year in which the payment was received by the U.S. person. This section also applies in a case where a nonresident alien re-

ceives indirectly an accumulation distribution from a foreign trust created by a U.S. person and then pays it over to a U.S. person. An example of such a transaction is one where the foreign trust created by a U.S. person makes the distribution to an intervening foreign trust created by either a U.S. person or a person other than a U.S. person and the intervening trust distributes the amount received to a nonresident alien who in turn pays it over to a U.S. person. Under these circumstances, it is deemed that the payment received by the U.S. person was received directly from a foreign trust created by a U.S. person.

(b) *Limitation.* In the case of a distribution to a beneficiary who is a U.S. person, paragraph (a) of this section does not apply if the distribution is received by such beneficiary under circumstances indicating lack of intent on the part of the parties to circumvent the purposes for which section 7 of the Revenue Act of 1962 (76 Stat. 985) was enacted.

[T.D. 7204, 37 FR 17139 Aug. 25, 1972]

### § 1.665(d)-1A Taxes imposed on the trust.

(a) *In general.* (1) For purposes of subpart D, the term *taxes imposed on the trust* means the amount of Federal income taxes properly imposed for any taxable year on the trust that are attributable to the undistributed portions of distributable net income and gains in excess of losses from the sales or exchanges of capital assets. Except as provided in paragraph (c)(2) of this section, the minimum tax for tax preferences imposed by section 56 is not a tax attributable to the undistributed portions of distributable net income and gains in excess of losses from the sales or exchanges of capital assets. See section 56 and the regulations thereunder.

(2) In the case of a trust that has received an accumulation distribution from another trust, the term *taxes imposed on the trust* also includes the amount of taxes deemed distributed under §§ 1.666(b)-1A, 1.666(c)-1A, 1.669(d)-1A, and 1.669(e)-1A (whichever are applicable) as a result of such accumulation distribution, to the extent that they were taken into account

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under paragraphs (b)(2) or (c)(1)(vi) of § 1.668 (b)-1A and (b)(2) or (c)(1)(vi) of § 1.669(b)-1A in computing the partial tax on such accumulation distribution. For example, assume that trust A, a calendar year trust, makes an accumulation distribution in 1975 to trust B, also on the calendar year basis, in connection with which \$500 of taxes are deemed under § 1.666(b)-1A to be distributed to trust B. The partial tax on the accumulation distribution is computed under paragraph (b) of § 1.668(b)-1A (the exact method) to be \$600 and all of the \$500 is used under paragraph (b)(2) of § 1.668(b)-1A to reduce the partial tax to \$100. The taxes imposed on trust B for 1975 will, in addition to the \$100 partial tax, also include the \$500 used to reduce the partial tax.

(b) *Taxes imposed on the trust attributable to undistributed net income.* (1) For the purpose of subpart D, the term *taxes imposed on the trust attributable to the undistributed net income* means the amount of Federal income taxes for the taxable year properly allocable to the undistributed portion of the distributable net income for such taxable year. This amount is (i) an amount that bears the same relationship to the total taxes of the trust for the year (other than the minimum tax for tax preferences imposed by section 56), computed after the allowance of credits under section 642(a), as (a) the taxable income of the trust, other than the capital gains not included in distributable net income less their share of section 1202 deduction, bears to (b) the total taxable income of the trust for such year or, (ii) if the alternative tax computation under section 1201(b) is used and there are no net short-term gains, an amount equal to such total taxes less the amount of the alternative tax imposed on the trust and attributable to the capital gain. Thus, for the purposes of subpart D, in determining the amount of taxes imposed on the trust attributable to the undistributed net income, that portion of the taxes paid by the trust attributable to capital gain allocable to corpus is excluded. The rule stated in this subparagraph may be illustrated by the following example, which assumes that the alternative tax computation is not used:

*Example.* (1) Under the terms of a trust, which reports on the calendar year basis, the income may be accumulated or distributed to A in the discretion of the trustee and capital gains are allocable to corpus. During the taxable year 1974, the trust had income of \$20,000 from royalties, long-term capital gains of \$10,000, and expenses of \$2,000. The trustee in his discretion made a distribution of \$10,000 to A. The taxes imposed on the trust for such year attributable to the undistributed net income are \$2,319, determined as shown below.

(2) The distributable net income of the trust computed under section 643(a) is \$18,000 (royalties of \$20,000 less expenses of \$2,000). The total taxes paid by the trust are \$3,787, computed as follows:

Royalties .....	\$20,000
Capital gain allocable to corpus .....	10,000
Gross income .....	30,000
Deductions:	
Expenses .....	\$2,000
Distributions to A .....	10,000
Capital gain deduction .....	5,000
Personal exemption .....	100
	17,100
Taxable income .....	12,900
Total income taxes .....	3,787

(3) Taxable income other than capital gains less the section 1202 deduction is \$7,900 (\$12,900 - (\$10,000 - \$5,000)). Therefore, the amount of taxes imposed on the trust attributable to the undistributed net income is \$2,319, computed as follows:

\$3,787 (total taxes) × \$7,900 (taxable income other than capital gains not included in d.n.i. less the 1202 deduction) divided by \$12,900 (taxable income) .....	\$2,319
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(2) If in any taxable year an accumulation distribution of undistributed net income is made by the trust which results in a throwback to a prior year, the taxes of the prior year imposed on the trust attributable to any remaining undistributed net income of such prior year are the taxes prescribed in subparagraph (1) of this paragraph reduced by the taxes of the prior year deemed distributed under section 666 (b) or (c). The provisions of this subparagraph may be illustrated by the following example:

*Example.* Assume the same facts as in the example in subparagraph (1) of this paragraph. In 1975 the trust makes an accumulation distribution, of which an amount of undistributed net income is deemed distributed in 1974. Taxes imposed on the trust (in the amount of \$1,000) attributable to the undistributed net income are therefore deemed distributed in such year. Consequently, the

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taxes imposed on the trust subsequent to the 1975 distribution attributable to the remaining undistributed net income are \$1,319 (\$2,319 less \$1,000).

(c) *Taxes imposed on the trust attributable to undistributed capital gain*—(1) *Regular tax.* For the purpose of subpart D the term *taxes imposed on the trust attributable to undistributed capital gain* means the amount of Federal income taxes for the taxable year properly attributable to that portion of the excess of capital gains over capital losses of the trust that is allocable to corpus for such taxable year. Such amount is the total of:

(i) The amount computed under subparagraph (2) of this paragraph (the minimum tax), plus

(ii) The amount that bears the same relationship to the total taxes of the trust for the year (other than the minimum tax), computed after the allowance of credits under section 642(a), as (a) the excess of capital gains over capital losses for such year that are not included in distributable net income, computed after its share of the deduction under section 1202 (relating to the deduction for capital gains) has been taken into account, bears to the greater of (b) the total taxable income of the trust for such year, or (c) the amount of capital gains computed under (a) of this subdivision.

However, if the alternative tax computation under section 1201(b) is used and there are no net short-term gains, the amount is the amount of the alternative tax imposed on the trust and attributable to the capital gain. The application of this subparagraph may be illustrated by the following example, which assumes that the alternative tax computation is not used:

*Example.* Assume the same facts as in the example in paragraph (b)(1). The capital gains not included in d.n.i. are \$10,000, and the deduction under section 1202 is \$5,000. The amount of taxes imposed on the trust attributable to undistributed capital gain is \$1,468, computed as follows:

\$3,787 (total taxes) × \$5,000 (capital gains not included in d.n.i. less section 1202 deductions)	
divided by \$12,900 (taxable income) .....	\$1,468

(2) *Minimum tax.* The term *taxes imposed on the trust attributable to the undistributed capital gain* also includes the minimum tax for tax preferences im-

posed on the trust by section 56 with respect to the undistributed capital gain. The amount of such minimum tax so included bears the same relation to the total amount of minimum tax imposed on the trust by section 56 for the taxable year as one-half the net capital gain (net section 1201 gain for taxable years beginning before January 1, 1977) (as defined in section 1222(11)) from such taxable year bears to the sum of the items of tax preference of the trust for such taxable year which are apportioned to the trust in accordance with § 1.58-3(a)(1).

(3) *Reduction for prior distribution.* If in any taxable year a capital gain distribution is made by the trust which results in a throwback to a prior year, the taxes of the prior year imposed on the trust attributable to any remaining undistributed capital gain of the prior year are the taxes prescribed in subparagraph (1) of this paragraph reduced by the taxes of the prior year deemed distributed under section 669 (d) or (e). The provisions of this subparagraph may be illustrated by the following example:

*Example.* Assume the same facts as in the example in subparagraph (1) of this paragraph. In 1976, the trust makes a capital gain distribution, of which an amount of undistributed capital gain is deemed distributed in 1974. Taxes imposed on the trust (in the amount of \$500) attributable to the undistributed capital gain are therefore deemed distributed in such year. Consequently, the taxes imposed on the trust attributable to the remaining undistributed capital gain are \$968 (\$1,468 less \$500).

[T.D. 7204, 37 FR 17139, Aug. 25, 1972, as amended by T.D. 7728, 45 FR 72650, Nov. 3, 1980]

### § 1.665(e)-1A Preceding taxable year.

(a) *Definition*—(1) *Domestic trusts*—(i) *In general.* For purposes of subpart D, in the case of a trust other than a foreign trust created by a U.S. person, the term *preceding taxable year* serves to identify and limit the taxable years of a trust to which an accumulation distribution consisting of undistributed net income or undistributed capital gain may be allocated (or “thrown back”) under section 666(a) and 669(a). An accumulation distribution consisting of undistributed net income or undistributed capital gain may not be